

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 PA-04 PRS-01 USIA-15 DRC-01 /155 W

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R 260840Z OCT 73

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 0081

INFO AMCONSUL HONG KONG

LIMITED OFFICIAL USE SECTION 1 OF 2 TAIPEI 6506

E.O. 11652: N/A

TAGS: ECON, TW

SUBJECT: INFLATION BECOMING MORE SERIOUS PROBLEM

FOR TREASURY REPRESENTATIVE

1. SUMMARY: THE RATE OF INFLATION IN TAIWAN HAS INCREASED SUBSTANTIALLY IN THE PAST TWO MONTHS ESPECIALLY FOR CERTAIN IMPORTANT CONSUMER ITEMS. GOVERNMENT IS TAKING SHORT RANGE DIRECT COUNTER MEASURES, IN ADDITION TO LONGER RANGE STEPS WHICH HAVE BEEN PLANNED AND IMPLEMENTED STARTING LAST MARCH, IT IS STILL TOO EARLY TO TELL WHETHER THIS SUDDEN SPURT IN CONSUMER PRICES HERALDS RAMPANT INFLATION. HOWEVER, GIVEN THE TRAUMA OF THE ROC'S MAINLAND EXPERIENCE AND FEAR THAT A REPEAT PERFORMANCE WOULD SERIOUSLY UNDERMINE CONFIDENCE IN GOVERNMENT, CHECKING THE PRICE RISES HAS BECOME MAJOR CONCERN OF THE LEADERSHIP. SITUATION HAS CAUSED FURTHER SERIOUS CONSIDERATION OF REVALUATION. END SUMMARY.

2. TAIWAN'S TRADITIONAL RATE OF INFLATION OF 2-3 PERCENT ANNUALLY BEGAN INCREASING MORE RAPIDLY TOWARDS END OF 1972 AND BEGINNING 1973 PARTLY AS RESULT RECENTLY DEVELOPED

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TRADE SURPLUS (US\$570 MILLION FOR FIRST 9 MONTHS OF 1973),

LARGE INCREASE IN MONEY SUPPLY (53 PERCENT INCREASE AUG. 31, 1973 OVER AUG 31, 1972), AND IMPORTED INFLATION (GENERAL INDEX OF IMPORT PRICES END OF AUG. 39 PERCENT OVER AUG. PREVIOUS YEAR, AND 44 PERCENT HIGHER JUST FOR AGRICULTURAL AND INDUSTRIAL RAW MATERIALS). ROC PLANNED AND IMPLEMENTED RATHER EXTENSIVE LONG RANGE PROGRAM TO DAMPEN INFLATION BEGINNING MARCH. CENTRAL BANK HAS MADE EFFORTS REDUCE RAPID EXPANSION OF MONEY SUPPLY WHILE MOEA WORKING ON SUPPLY SIDE AND DIRECT PRICE CONTROLS (SEE ECONOMIC TRENDS REPORT, AUGUST). NEVERTHELESS, WHOLESALE PRICES INCREASED 30 PERCENT BY END SEPT. OVER SAME MONTH 1972. CONSUMER PRICES FOLLOWED SUBSTANTIALLY BEHIND BUT IN SEPT. SHOWED UNUSUALLY HIGH MONTH-TO-MONTH INCREASE OF 4.22 PERCENT OVER AUG. IN ADDITION MOEA HAS IDENTIFIED CERTAIN ITEMS AS EXPERIENCING MUCH HIGHER RATES OF INCREASE, E.G., COTTON CLOTH 43 PERCENT, PAPER BOXES 78 PERCENT, AND PLASTIC BAGS 200 PERCENT, ALL WITHIN THIS YEAR. FURTHERMORE, A GROUP OF DAILY NECESSITIES, INCLUDING TOWELS, MONOSODIUM GLUTAMATE (MSG), SOAP, TOOTHPASTE, TOILET PAPER, UNDERWEAR AND STATIONERY EXPERIENCED A SUDDEN SPURT IN PRICE IN TEN DAY PERIOD SEPTEMBER 25 TO OCT. 5, WITH INCREASES IN RANGE 30-50 PERCENT OVER END OF 1972.

3. ROC ALREADY VERY CONCERNED ABOUT HIGH RATE OF INFLATION AS EVIDENCED BY PREMIER'S STATEMENT IN HIS ADMINISTRATIVE REPORT TO THE LEGISLATIVE YUAN SEPT 25 WHEN HE SAID ROC HAS "GIVEN PRICE STABILIZATION HIGHEST PRIORITY." EXISTENCE OF WIDESPREAD CONCERN EMPHASIZED TO EMPHATICALLY TRAVELING DOWN ISLAND BY PROVINCIAL AND LOCAL OFFICIALS. EVENTS SINCE SEPT 25, DESCRIBED ABOVE, HAVE SPURRED ROC TO TAKE FOLLOWING HEASTILY ARRANGED MEASURES WEEKEND OCT 6 AND 7 THROUGH MOEA AND ITS PRICE STABILIZATION COMMITTEE AND INDUSTRY BUREAU:

A. AFTER CONSULTATION WITH MOEA, ASSOCIATIONS OF MANUFACTURERS OF ABOVE-MENTIONED KEY ITEMS OCT. 8 ANNOUNCED "REASONABLE CEILING" EX-FACTORY PRICES, HIGHER THAN BEFORE ONLY TO EXTENT JUSTIFIED BY INCREASED COSTS.

B. UNDER PLAN WORKED OUT BY INDUSTRY BUREAU, PRODUCERS SUPPLIED SOME STOCK OF BASIC NECESSITIES MENTIONED LIMITED OFFICIAL USE

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ABOVE TO TAIWAN SUPPLY BUREAU (TSB), A PROVINCIAL GOVERNMENT AGENCY, WHICH WOULD STAND READY TO SELL THE ITEMS AT FIXED PRICES. CONSUMERS COULD TURN TO TSB IF THEIR USUAL STORES CHARGED TOO MUCH. ROC BELIEVES THIS STEP HAS HELPED KEEP A LID ON THINGS.

C. PUNISHMENT WILL BE IMPOSED ON THOSE RETAILERS WHO EXCEED REASONABLE PROFIT LEVEL IN SETTING THEIR OWN MARK UP OF PRICES.

D. D. ROC HAS OFFERED ASSIST PRODUCERS OBTAIN REQUIRED
RAW MATERIAL AT REASONABLE PRICES.

4. OCT. 18. EXECUTIVE YUAN APPROVED FOUR ADDITIONAL, BUT
VERY MODEST, STEPS TO CURB PRICE INCREASES:

A. EXPORT BAN ON CONSUMER GOODS IN SHORT SUPPLY.
B. CONSUMER GOODS MAY BE IMPORTED WITHOUT COUNTRY-OF-
ORIGIN RESTRICTION. BOFT HAS JUST RELEASED LIST OF
824 SUCH ITEMS, WHICH CAN BE IMPORTED FROM ANY
SOURCE EXCEPT MAINLAND CHINA.

C. MOEA INSTRUCTED TO REVIEW EXISTING FREEZE ON
NUMBER OF FACTORIES PRODUCING CONSUMER GOODS, AND
PERMIT ADDITIONAL CAPACITY NECESSARY TO HOLD PRICES
DOWN.

D. MOEA TO CHECK AGAIN ON CEILING PRICES (SEE 3A
ABOVE) TO ENSURE REASONABLENESS.

THESE MEASURES ARE NOT LIKELY TO HAVE ANY SIGNIFICANT
IMPACT ON PRICE LEVELS AT LEAST IN THE NEAR FUTURE.
FOR EXAMPLE MSG ONLY NECESSITY PRODUCTION OF WHICH MIGHT
BE LIBERALIZED UNDER C ABOVE.

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ACTION EA-14

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CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

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FM AMEMBASSY TAIPEI
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5. GRC HAS SO FAR NOT EXTENDED GOVERNMENT IMPOSED PRICE

CEILINGS ON ITEMS BEYOND THOSE 11 ITEMS ANNOUNCED
LAST JUNE 29. INSTEAD HAS RELIED ON "JAW-BONING" TO
ACHIEVE PURPOSE, ALTHOUGH AUTHORITY OF "PRICE
STABILIZATION COMMITTEE" WAS EXPANDED LAST AUG. AND
CHAIRMANSHIP RAISED FROM VICE MINISTER OF MOEA TO
MINISTER SUN.

6. TWO MONETARY MEASURES TAKEN RECENTLY IN ANTI-INFLATION
CAMPAIGN: A) AUCTION OF NT\$200 MILLION IN 91-DAY TRASURY
BILLS OCT 18 WITH 5 MORE ISSUES OF SAME AMOUNT TO FOLLOW
EVERY OTHER WEEK. TOTAL ISSUE OF NT\$1.2 BILLION REPRESENTS
MODEST BUT GOOD BEGINNING TOWARD ABSORPTION SOME OF
EXCESS MONEY AND HOULD AT SAME TIME FACILITATE BEGINNING
OF CAPITAL MARKET; B) OCT 24 INTEREST RATES RAISED 1-1.5
PERCENT ON DEPOSITS AND 1-1.25 PERCENT ON LOANS. SAVINGS
NOW BRING 7 TO 12 PERCENT INSTEAD OF 6 TO 10.5 PERCENT.
LOANS NOW COST 9.75 TO 13.75 PERCENT FOR BUSINESS AND 8.75
TO 10.75 PERCENT FOR BANKS FROM CENTRAL BANK. INTEREST
RATE INCREASES DO NOT, HOWEVER, APPLY TO LOANS FOR IMPORTS.

7. FURTHER MEASURES UNDER CONSIDERATION. REDUCTION OF
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IMPORT DUTIES ON ABOUT 100 ITEMS MOSTLY CONSUMER GOODS,
TO BE ANNOUNCED SOON. MOF HAS FOUND REMOVAL OF IMPORT RESTRIC-
TIONS ON 2,300 ITEMS LAST MARCH HAS, IN MAY CASES, NOT
CAUSED APPRECIABLE INCREASE IN IMPORTS BECAUSE OF PRO-
HIBITIVE TARIFFS.

8. PROBLEMS WITH INFLATION HAVE HEIGHTENED INTEREST IN
POSSIBLE AMELIORATING EFFECT OF REVALUATION. HOWEVER, NO
MINDS HAVE BEEN CHANGED ON THIS ISSUE AND DIVISIONS WITHIN
GOVERNMENT OVER QUESTION HAVE PERHAPS DEEPENED. MOEA
AND ITS IMPORTANT SUBSIDIARY AGENCIES, BOFT AND INDUSTRIAL
BUREAU OPPOSE IDEA ON GROUNDS IT IS UNNECESSARY -- TRADE
SURPLUS REALLY NOT AS GREAT AS CUSTOMS FIGURES SHOW -- AND
UNDESIRABLE -- IT WOULD DAMAGE INTERNATIONAL COMPETI-
TIVE POSITION OF EXPORT SECTOR WHICH WOULD IN TURN REDUCE
EMPLOYMENT OPPORTUNITIES, ETC. ECONOMIC PLANNING COUNCIL
(EPC) AND AT LEAST PART OF CENTRAL BANK CONTINUE PROMOTE
IDEA. MOF SOMEWHERE IN MIDDLE WITH INDICATIONS IT ISX
LEANING AGAINST IDEA ON GROUNDS IME IS PAST WHEN THIS
NECESSARY OR HELPFUL AS U.S. POSITION IMPROVES. MINISTRY
IS MORE INCLINED REMOVE OUTDATED EXPORT INCENTIVES. SOME
REPORTS INDICATE PREMIER NOT DEAD-SET AGAINST REVALUATION
AS HE HAD BEEN FORMERLY.

9. COMMENTS: ROC NEEDS NO PROMPTING ON POSSIBLE POLITICAL
IMPLICATIONS RAMPANT INFLATION, GIVEN ITS EXPERIENCE ON
MAINLAND IN WHICH PREMIER PERSONALLY INVOLVED. EMBASSY

BELIEVES GOVERNMENT MAKING REASONABLY GOOD EFFORT TO DEAL WITH
SERIOUS PROBLEM, ESPECIALLY IN COMPARISON WITH MANY OTHER
COUNTRIES OF WORLD EXPERIENCING SAME PHENOMENON. REVAL-
UATION IS STILL A POSSIBILITY, ESPECIALLY IF RECENT
MEASURES, COUPLED WITH THOSE ANNOUNCED EARLIER, DO NOT
SHOW SOME RESULTS. STILL TOO EARLY TO TELL IF SEPT. SPURT
IN PRICES EPHEMERAL AND ALREADY BEING DISSIPATED
THROUGH MEASURES DESCRIBED PARAS 3 AND 4, OR BEGINNING
OF MORE SERIOUS INFLATION.
MCCONAUGHY

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